

Message Text

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R 260930Z DEC 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 8716

S E C R E T SECTION 1 OF 2 PHNOM PENH 17134

EXDIS

E.O. 11652: GDS

TAGS: EAID, CB

SUBJECT: FAA CEILINGS AND THE PROBLEMS OF RICE SUPPLY

REF: A) PHNOM PENH 16790 (EXDIS)

B) PHNOM PENH 16791

C) PHNOM PENH 16820

D) PHNOM PENH 17133

1. AS PROMISED IN REF D, THIS CABLE ADDRESSES ITSELF TO MISSION THOUGHTS ON STEPS WHICH MIGHT BE TAKEN HERE AND IN WASHINGTON TO HELP SOLVE THE VERY SERIOUS PROBLEM CAUSED BY THE \$177 MILLION ECONOMIC ASSISTANCE CEILING IMPOSED ON CAMBODIA BY THE CONGRESS (A SEPARATE TELEGRAM ADDRESSES THE MILITARY SIDE OF THE CEILING).

2. IN REFTELS A, B, AND C, THE POST SET FORTH ITS VIEWS ON THE DISASTROUS EFFECTS UPON THE ECONOMY WHICH WOULD RESULT FROM A RICE-ONLY STRATEGY. THE SOLUTION TO THE RICE SHORTFALL DOES NOT, IN OUR STRONGLY-HELD VIEW, LIE IN USING THE REMAINING FUNDS IN THE \$100 MILLION ECONOMIC ASSISTANCE AUTHORIZATION TO SUPPLEMENT THE \$77 MILLION AUTHORIZED FOR P.L. 480.

3. THE PRIMARY PROBLEM WITH THE \$177 MILLION ECONOMIC ASSISTANCE CEILING IS THAT IT DOES NOT PROVIDE FOR ENOUGH RICE TO MEET OUR MINIMAL REQUIREMENTS. IN OUR VIEW THEREFORE, THE FOCUS OF USG ATTENTION SHOULD BE

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FIXED ON FINDING WAYS TO PROVIDE ENOUGH RICE DURING

FY 75 TO MEET CONSUMPTION REQUIREMENTS, PLUS A SECURITY STOCK THROUGH DECEMBER 1975, WHEN NORMALLY THE FIRST SHIPMENTS FROM THE US FY 76 CROP BEGIN TO ARRIVE IN SAIGON. BY OUR CALCULATIONS, TOTAL SHIPMENTS DURING FY 75 WILL HAVE TO BE IN THE NEIGHBORHOOD OF 365,000 M/T TO MEET THIS REQUIREMENT. THE \$77 MILLION ORIGINALLY PROPOSED TO THE CONGRESS FOR FY 75 PL 480 SHIPMENTS, WE UNDERSTAND, WILL NOW BUY ONLY 170,000 M/T (ASSUMING WE DO NOT FINANCE ANY NON-RICE PL 480 COMMODITIES). THEREFORE THE BALANCE NEEDED TO MEET OUR TARGET IS 195,000 M/T.

4. AFTER CONSIDERING THE LIMITED OPTIONS AVAILABLE TO US, WE ARE PERUSADED THAT AN APPROACH TO THE CONGRESS WILL BE NECESSARY EITHER TO INCREASE THE CEILING TO BUY MORE RICE OR TO EXEMPT PL 480 EXPENDITURES FROM THE CEILING. AS WILL BE SEEN FURTHER ON, ALL OTHER REMEDIES WE HAVE CONSIDERED ARE EITHER PARTIAL PALLIATIVES THAT DO NOT PROVIDE ENOUGH RICE (AND INVOLVE VARYING DEGREES OF A RICE STRATEGY WHICH, AS WE HAVE POINTED OUT IN REF A, B, AND C, WOULD HAVE DISASTROUS EFFECTS ON THE ECONOMY) OR ARE ACTIONS WHICH WOULD CIRCUMVENT THE INTENT OF CONGRESS AS PRESENTLY EXPRESSED IN THE CEILING.

5. ASSUMING AN APPROACH TO CONGRESS IS MADE, WE SUGGEST TWO ALTERNATIVE STRATEGY OPTIONS (OR PERHAPS A COMBINATION OF THE TWO).

(A) RELIEF ON TITLE I- THE ADMINISTRATION COULD CITE THE CRITICAL NEED FOR RICE TO FEED THE POPULATION (INCLUDING THE REFUGEE POPULATION). IT COULD BE POINTED OUT THAT THE \$77 MILLION WAS BASED UPON AN ESTIMATED REQUIREMENT OF 260,000 TONS. SINCE THIS PRESENTATION, DOLLAR COSTS FOR RICE HAVE INCREASED AND AN ADDITIONAL 100,000 TONS IS REQUIRED, DUE TO INCREASES IN THE REFUGEE POPULATION, AS WELL AS A LOWER-THAN-FORECAST DOMESTIC PRODUCTION.

(B) TITLE II PROGRAM- AT PRESENT WE ARE FEEDING DIRECTLY THROUGH THE VOLAG PROGRAM, OR INDIRECTLY THROUGH THE COMMERCIAL MARKET, 1.2 MILLION REGISTERED
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REFUGEES, AS WELL AS AN ESTIMATED THREE TO FOUR HUNDRED THOUSAND UNREGISTERED REFUGEES. A TITLE II APPROACH WOULD RECOGNIZE THIS FACT BY REQUESTING AS MUCH AS 200,000 M/T OF RICE TO MEET THIS BASIC HUMANITARIAN REQUIREMENT. THIS APPROACH WOULD ADMITTEDLY POSE SOME ADMINISTRATIVE PROBLEMS FOR US, BUT IN OUR VIEW THEY COULD BE HANDLED.

6. IN THE EVENT A FURTHER APPROACH TO THE CONGRESS IS NOT POSSIBLE OR ULTIMATELY NOT SUCCESSFUL, THERE ARE A NUMBER OF OTHER OPTIONS WHICH COULD BE EXPLORED. AS STATED PREVIOUSLY, NONE OF THESE OPTIONS WOULD PROVIDE THE FULL AMOUNT OF RICE WE NEED OR ENHANCE OUR POSITION WITH CONGRESS. WITH THESE CAVEATS IN MIND THERE ARE THREE OTHER OPTIONS WHICH MIGHT PROVIDE RELIEF, E.E., (A) LEGAL, (B) ADDITIONAL RICE FROM VIET-NAM, OR (C) OTHER DONOR ASSISTANCE.

(A) LEGAL OPTIONS. AS WE UNDERSTAND IT, PL 480 IS FUNDED EACH YEAR OUT OF THREE POTS OF MONEY, I.E., NEW OBLIGATING AUTHORITY, RECOVERIES AND CCC CONTINGENCY FUNDS. WHILE THE CONGRESSIONAL CEILING CERTAINLY APPLIES TO NOA, WE WONDER IF THE CEILING ALSO APPLIES TO RECOVERIES OR TO THE CCC CONTINGENCY FUNDS. IF THE CEILING DOES NOT APPLY, THERE MAY BE ENOUGH FUNDS AVAILABLE TO PAY FOR THE ADDITIONAL RICE WE NEED WITHOUT FURTHER REFERENCE TO CONGRESS. ANOTHER LEGAL OPTION WHICH MAY BE AVAILABLE TO US IS SECTION 614 OF THE FOREIGN ASSISTANCE ACT WHICH, IF OUR INTERPRETATION IS CORRECT, WOULD PERMIT THE PRESIDENT TO WAIVE THE CEILING RESTRICTIONS ON NATIONAL SECURITY GROUNDS. NO FUNDING RESTRICTIONS WOULD APPLY IN THIS CASE AS CAMBODIA "IS A VICTIM OF ACTIVE COMMUNIST OR COMMUNIST SUPPORTED AGGRESSION." THIS OPTION WOULD CREATE OBVIOUS PROBLEMS WITH THE CONGRESS AND, IF INVOKED, COULD RESULT IN SECTION 614 AUTHORITY SUBSEQUENTLY BEING WITHDRAWN BY CONGRESS.

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TO SECSTATE WASHDC 8717

S E C R E T SECTION 2 OF 2 PHNOM PENH 17134

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(B) RICE FROM VIET-NAM. THERE ARE SEVERAL VARIATIONS ON THIS THEME. THE FIRST-- RICE IS ADDED TO VIETN-AM PL 480 AGREEMENT AND THEN LOANED TO CAMBODIA AGAINST REPAYMENT IN FY 76. AS PART OF THIS ARRANGEMENT, THE 45,000 TONS THAT HAVE ALREADY BEEN LOANED DURING FY 75 ARE FORGIVEN UNTIL FY 76. THE DANGER HERE IS THAT THERE CAN BE NO ASSURANCE THAT THE CONGRESS WILL PERMIT ENOUGH RICE TO BE SHIPPED DURING FY 76 TO BOTH REPAY THE VIETNAMESE AS WELL AS MEET CAMBODIA'S NEEDS. A SECOND VARIATION WOULD BE TO ESTABLISH AN INDOCHINA RICE RESERVE. RICE WOULD BE SHIPPED TO SAIGON AND PUT IN BONDED STORAGE. ITS PURPOSE WOULD BE TO PROVIDE FOR FUTURE VIET-NAM AND CAMBODIA NEEDS. AS OF JULY 1, RELEASES WOULD BE MADE AGAINST THE RESERVE TO CAMBODIA. AS THIRD VARIATION WOULD BE FOR CCC TO CARRY 200,000 M/T OF RICE IN INVENTORY AT THE END OF FY 75. A PURCHASE AUTHORIZATION COULD BE ISSUED ON JULY 1, THEREBY GREATLY REDUCING THE DELAYS THAT NORMALLY OCCUR WAITING FOR THE US HARVEST. NOTE, HOWEVER, THAT RICE STOCKS WILL BE DEPLETED BY JUNE 10 ACCORDING TO OUR PROJECTION; WE WOULD NEED ADDITIONAL RICE TO FILL THE GAP FROM JUNE TO OCTOBER. PERHAPS ADDITIONAL RICE COULD BE BORROWED FROM VIET-NAM TO MEET CONSUMPTION UNTIL RICE FROM THE US WOULD ARRIVE IN OCTOBER. HOWEVER, WHEN STOCKS DROP TO LOW LEVELS, IN MAY, WE CAN EXPECT BREAKDOWN IN PUBLIC ORDER. WE THEREFORE QUESTION VALIDITY OF THIS ALTERNATIVE. ANOTHER PROBLEM THAT MIGHT ARISE WITH THIS VARIATION IS THAT
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INVENTORY CARRYOVERS BY CCC COULD EFFECT RICE ACREAGE ALLOTMENTS.

(C) OTHER DONOR ASSISTANCE. IF THE USG IS UNABLE TO PROVIDE ENOUGH RICE FOR CAMBODIA, WE DOUBT THAT THE SHORTFALL WILL BE MET BY OTHER COUNTRIES. JAPAN AND THAILAND ARE POTENTIAL DONORS. WHILE THE GOJ HAS IN THE PAST PROVIDED SMALL AMOUNTS OF RICE WE SERIOUSLY DOUBT THAT DIET WOULD APPROVE SUBSTANTIAL AMOUNTS COSTING ANYWHERE FROM \$70 TO \$80 MILLION. THAILAND HAS RICE AVAILABLE, BUT WOULD UNDOUBTEDLY WANT A QUID-PRO-QUO OF SOME KIND FROM THE USG FOR ASSISTANCE TO THE GKR.

7. WE HAVE ALSO EXPLORED HOW TO REDUCE RICE CONSUMPTION HERE. IN OUR VIEW RICE DEMAND IS FAIRLY INELASTIC; EVEN IF IT WERE POLITICALLY POSSIBLE TO DOUBLE THE RICE PRICE, AT BEST WE COULD EXPECT A TEN PERCENT REDUCTION IN DEMAND. IT SHOULD ALSO BE KEPT IN MIND THAT THIS YEAR'S CROP IN CAMBODIA WILL BE WORSE THAN LAST YEAR'S, AND IT IS EVEN CONCEIVABLE

THAT THE BATTAMBANG AREA COULD BE SLIGHTLY DEFICIT. IF
ANYTHING, DEMANDS ON RICE MAY GROW HIGHER THAN THEY ARE
AT PRESENT SO THAT WE WILL BE DOING WELL IF WE CAN
HOLD CONSUMPTION DOWN TO PRESENT LEVELS.
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